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### Iroquois Capital's Josh Silverman <sup>11</sup> Threatens Portfolio Stock CEO <sub>Jun</sub>

UPDATE 7-3-14: I am reporting at [Growth Capitalist](#) hedgeie Josh Silverman pulled their support of a New Jersey gaming permit for MGT in what appears to be a retaliation move against MGT CEO Robert Ladd for speaking to the press.

#### *Original Text*

There is a dirty battle going on between activist hedgeie Josh Silverman and the CEO of an online gaming company his hedge fund, Iroquois Capital, invested in. I reported today for [Growth Capitalist](#) that MGT Capital Investments CEO, Robert Ladd, thinks he has found a paper trail that could show Iroquois was parking stock to hide stock ownership above 10 percent. It could lead to violations of Section 16 of the 1934 Securities Act for Iroquois and the affiliate he allegedly works with Jay Spinner. (In 2006 Spinner was issued an enforcement action by the SEC for his role in an illegal short selling scheme. He did not admit or deny guilt and was banned from the industry for only 6 months.)

Iroquois Master fund made a \$1 million PIPE investment into MGT in October 2012. MGT also did a registered direct offering on the same day as the PIPE deal with Jay Spinner's company, Ellis International, who bought 200,000 shares of MGT via the RDO. Spinner has an office in Iroquois NYC office but is not believed to be an employee of the fund. Iroquois has a 9.99% stake in MGT and Spinner had bought a 6.7% stake. Ladd is alleging through a series of transaction these two positions acted as a group and Iroquois stake in his company was really more than 10%.

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It was during my month-long investigation into how this transaction was set up I learned CEO Ladd and his CFO Robert Traversa had been verbally threatened by Silverman after Ladd refused to allow the hedge fund activist to put his own people on the board of Ladd's public company MGT Capital Investments. Silverman invited Ladd to come to his New York City office and said, "I am going to crush you and drive your stock down to 50 cents."

It's rare I hear a hedge fund manager be this aggressive and bold and even rarer the CEO is willing to go on the record—but they did. After the threat, Silverman then issued two public letters, filed with the SEC, railing on Ladd's management choices and compensation.

If Iroquois, who invested via a PIPE deal, did own more than 10% of MGT's stock and was selling stock for a profit, securities law says he would have had to reinvest the profits back into the company. Ladd thinks Silverman made profits off his stock in the millions and those millions should have legally been reinvested into the company. But without a regulator forcing the hedge fund to turn over trading records this is going to be very costly and difficult for the small cap company CEO to prove.

There is also sentiment that Ladd made his own bed by allowing Iroquois to invest in his fund in the first place and get preferred stock with voting rights. Ladd had previously run his own small hedge fund called Ladd Capital and isn't a unsophisticated investor.

Ladd's \$MGT is now facing short selling pressure but the CEO doesn't have the legal means to investigate who is doing the shorting. Even in the aftermath of Dodd-Frank legislation it is still extremely tough to see a hedge fund's trading records.

Silverman and Jay Spinner refused to answer any questions for Growth Capitalist but two days before the story ran Silverman published a public letter with the SEC calling out Ladd once again for what he views as poor management choices and then alluded to Ladd starting a 'smear campaign' against the hedge fund. I saw this as nothing more than a

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Sometimes in a PIPE transaction when a hedge fund has a large block of stock or warrants or debt they are not holding onto them with hope the company stock will improve on performance. Instead they are hoping the company goes bankrupt so they can gut the assets of the company and get them for cheap. At Growth Capitalist we've seen Iroquois focus on investing in companies with patents or intellectual property. MGT Capital has a valuable patent but it's currently in litigation. It's this reporters opinion that Iroquois wants downward pressure on MGT Capital Investment stock so it can hurt the company financially and buy their patent on the cheap when the company is short for cash or bankrupt. Another way they could have made money on the company is having a larger short position than they do a long position and use other affiliate funds or people to buy these short positions.

To read the documented paper trail of how Silverman set up this possible illegal investment strategy [click here](#). It's free to register for the first 30 days and the excellent story reporting is a cautionary tale of how some hedge funds can skirt the law for profit and sadly destroy company value.

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